

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

October 29, 2003

Board Members present:

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005
JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007
JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2004
THOMAS CANDON, representing Commissioner of BISHCA
VAUGHN ALTEMUS, representing Commissioner of Education
JEB SPAULDING, VT State Treasurer

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
David Driscoll, Mellon Consultants, Inc.
Steve Klein, Joint Fiscal Office
Rob Hofmann, Commissioner of Finance & Administration
David Beatty, Budget Annalist, Finance & Administration
Angelo Dorta, President VT-NEA
Joel Cook, VT- NEA Executive Director
Rita Rinehart, President Association of Retired Teachers of Vermont
June Atwood, Association of Retired Teachers of Vermont
Dick Charlton, Ellen Griggs, Kevin Kondry, Rob Fishman, NEPC - via conference call

The Chairperson, Joe Mackey, called the meeting to order at 8:36 a.m. on Wednesday, October 29, 2003 in the Treasurer's Conference Room #2, 133 State Street, Montpelier, Vermont.

ITEM 1: Consideration of appropriate responses and possible board action relating to recent activities of Putnam Investments

Mr. Charlton, Ms. Griggs, Mr. Kondry and Mr. Fishman joined the meeting via conference call.

Mr. Mackey said he would like to have a policy put in place to react to if the need arises, rather than reacting to an incident. The Board will continue discussion regarding the development of a policy at the upcoming November 19th joint educational meeting.

The Board discussed the need to enter into executive session and agreed not to. The Board discussed the issues surrounding the trading activities, lack of sanctions, ramifications, repeat behavior, and recent termination of key employees at the international product line at Putnam Investments.

On a motion by Mr. Spaulding seconded by Mr. Kaplan, the Board unanimously voted to act in a manner as recommended by the Investment Consultant and terminate the contract with Putnam Investment Advisors and move the funds to an index fund managed by State Street Global Advisors, for an indefinite period of time.

ITEM 2: Fiscal Year 2003 Actuarial Valuation

David Driscoll advised the Board that effective October 1, 2003 after 87 years the company name of Buck Consultants was changed to Mellon Human Resources & Investor Solutions. The change is the result of the 1987 acquisition of Buck Consultants and subsequent purchases and mergers by Mellon with a variety of business service entities. He assured the Board that there would be no change in his role to the State of Vermont or the service provided.

Mr. Driscoll reviewed the FY'03 Actuarial Valuation. He advised the Board that the primary reason for the normal contribution rate increase from 4.04% to 6.83% was the impact of changes in the assumptions as a result of the 5-year experience study (completed in March 2003) and adverse investment returns.

On a motion by Mr. Harris seconded by Mr. Mackey, the Board unanimously voted to request from the Governor the recommended contribution of \$43,592,332 (6.83% of payroll and \$12,385,332 towards the liquidation of the unfunded accrued liability), for FY'05 and \$45,616,599 (6.83% of payroll and \$13,004,599 towards the liquidation of the unfunded accrued liability), for FY'06.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Board unanimously voted to accept the FY 2003 actuarial valuation.

ITEM 3: Ratify the disability retirement for: *Donald Anderson*

On a motion by Mr. Harris seconded by Mr. Mackey, the Board voted to ratify the approval for a disability retirement for Donald Anderson. Mr. Mackey, Mr. Spaulding, Mr. Candon, Mr. Altemus, and Mr. Harris voted yes. Mr. Kaplan voted no.

ITEM 4: Approve the minutes for September 23, 2003 Joint Meeting, and September 23, 2003 business meeting

On a motion by Mr. Harris seconded by Mr. Candon, the minutes of the September 23, 2003 joint meeting were approved, as submitted.

On a motion by Mr. Harris seconded by Mr. Candon, the minutes of the September 23, 2003 business meeting were approved, as submitted.

ITEM 5: Any other business to be brought before the Board

Ms. Webster distributed a DRAFT of the letter intended for distribution to Vermont Supervisory Unions and School Districts regarding the employment of independent contractors and possible relationship and reporting requirements to the Vermont State Teachers' Retirement. Ms. Webster asked for comments by October 31, 2003.

Mr. Spaulding reported that he, Ms. Pearce, Ms. Webster and Mr. Minot attended a meeting with Michael Smith, Secretary of Administration, regarding development of a plan to address the underfunding of the VSTRS. Mr. Smith did not feel a suggestion for set payments to eliminate the unfunded liabilities over the next 5-7 years was possible, however, he was receptive to the idea of listing the VSTRS at the top of a "waterfall appropriations" list.

Mr. Spaulding will follow-up in writing to the Governor and Mr. Smith, to outline the concept that significant excess revenues at the end of a fiscal year be allocated to the VSTRS to reduce the funding gap.

Mr. Spaulding said he spoke to the Chair of the Senate's Appropriations Committee, who also was open to the idea.

Mr. Altemus suggested the proposal also include a request for a moderate increase to annual appropriations.

Mr. Spaulding will prepare the letter pursuant to these conversations, on behalf of the Board.

On a motion by Mr. Altemus seconded by Mr. Harris, the Board unanimously voted to adjourn at 10:50 a.m.

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board

GOALS

The Board established the following list of goals to be addressed in the future:

Support full appropriation
Increased staff for counseling & continued training

TO DO's

Who	What	When	Done
** = for possible 2004 legislative changes			
All	Support full appropriation		
CLW	Conclude RFP for evidentiary hearing process	ASAP	
All	Benchmarking the system project	TBD	
David	Provide chart outlining projected contribution rates (7/21 item 3)	ASAP	
Beth	Complete Proxy voting RFP (7/21 item 4)	9/30/03	
CLW	Prepare and send letter to school districts re: independent contractors (7/21 item 2 & 9/23 item 6)	ASAP	
CLW	Return to work policy (7/21 item 2)	ASAP	
CLW	State Employee reimbursement policy GSA? (7/21 item 4)	ASAP	
David?	Follow-up info on securities litigation (7/21 item 6)	ASAP	
CLW	Reportable wages (7/21 item 9)	ASAP	
CLW	Define teacher & independent contractor (8/20 item 3)	ASAP **	
	NEPC Commission Recapture negotiations w/State Street Bank (8/20 item 3)	ASAP	
David	Appropriate timing of semi-annual rebalancing (see 8/20 item 4)	11/19/03	Done 11-19
NEPC	Review of Objectives regarding "transparency" for hedge funds (9/23 item 1) POSSIBLE JOINT MEETING	11/19/03	
NEPC	Index manager enhancement options (9/23 item 2)	11/19/03	Done 11-19
CLW	Follow up on AG's opinion/information regarding Attorney Storrow appeal (9/23 item 3)	12/1/03	
CLW	Follow up on developing policy for independent/private school membership (9/23 item 4)	ASAP	
CLW	Define entity eligibility criteria (9/23 item 4)	ASAP **	
Jeb	Unitization proposal (9/23 item 5)	10/29/03	Done 11-19
CLW	Define "separation of service" (9/23 item 6)	ASAP **	
CLW	Re-vesting if second account established (9/23 item 6)	ASAP **	
Jeb	Increase communication with membership – Treasurers' Office plan (9/23 item 7)	ASAP	
Jay/CLW	Follow-up on Retired Teachers' Association flyer (9/23 item 7)	ASAP	
Jeb	Independent Retirement web site access (9/23 item 7)	ASAP	
Jeb	Follow-up on funding strategy (9-23 item 9)	on going	
CLW	Evaluate magnitude/impact to system of potential 700 wavered teachers (9/23 item 11)	ASAP	

ALL	Clarify title 16 "License" definition (9/23 item 11)	1/1/04 **
Jeb	Complete Independent Management Review RFP and Send copy to Jay Kaplan (9/23 item 12)	ASAP
Jeb	Letter to Administration re: funding plan (10/29 item 5)	ASAP